

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION****Assemblymember Ira Ruskin, Chair****WEDNESDAY, FEBRUARY 10, 2010
STATE CAPITOL, ROOM 447
9:30 A.M.**

<u>Item</u>	<u>Description</u>	<u>Page</u>
3540 0690 Issue 1	Department of Forestry and Fire Protection California Emergency Management Agency Emergency Response Initiative	2
3500 Issue 1	Department of Resources Recycling and Recovery Beverage Container Recycling Program Trailer Bills	3
3560 Issue 1	State Lands Commission Tranquillon Ridge Offshore Drilling Proposal	4
3940 Issue 1	State Water Resources Control Board Clean Water State Revolving Fund	6

ITEMS TO BE HEARD

3540 – DEPARTMENT OF FORESTRY AND FIRE PROTECTION 0690 – EMERGENCY MANAGEMENT AGENCY

ISSUE 1: EMERGENCY RESPONSE INITIATIVE

Governor's Proposal

The Governor's is proposing the Emergency Response Initiative (ERI) that will levee a 4.8 percent surcharge on all statewide residential and commercial property insurance policies to fund statewide fire protection and emergency response services. Assuming that the surcharge is initiated in March of 2010, this proposal would generate \$238 million in 2010-11, \$200 of which will be used to offset current Cal FIRE wildfire protection costs. Beginning in 2011-12, the ERI will generate roughly \$480 million per year. The Administration is proposing to allocate this revenue in 2011-12 as follows:

- \$69.11 million for Cal EMA Disaster Assistance program
- \$17 million for Cal EMA wildland fire engines
- \$2.2 million for the Military Department's for fire suppression assets
- \$50.6 million for Cal FIRE for increased seasonal firefighters, communication network upgrades and GPS tracking equipment for vehicles and planes
- \$150 million for the E-Fund to cover costs of fighting wildland fires
- \$150 million for local agencies in the form of local mutual aid grants

Staff Comments

This proposal raises a statewide surcharge to fund statewide emergency response activities. While in the out-years the Governor's proposal will fund various different response activities at the state and local level, the majority of the revenue in the budget year from this proposal will be used to defray current General Fund costs for fire protection.

Because of the significant focus towards fire that this proposal has, it is important to discuss the appropriateness of charging a statewide fee for services that are both highly focused in fire prone regions of the state and are also disseminated statewide through secondary impacts of fire. These impacts include general health and safety threats such as mudslides, water contamination, damage to energy/water infrastructure, and particulate air pollution.

The ERI is being proposed by the Administration as a fee requiring a 2/3rds vote. Because of nexus issues, it is not possible to approve this proposal with a majority vote.

3500 – DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

ISSUE 1: CALIFORNIA BEVERAGE CONTAINER RECYCLING PROGRAM TRAILER BILL LANGUAGE

Governor's Budget Proposal

The California Beverage Container Recycling Program has been facing ongoing fiscal insolvency since last year as a result of loans made from its fund to the General Fund and the convergence of spiking recycling rates with declining container sales. Starting in July 2009, this lack of funding triggered 85 percent proportionate reductions to all of the program's recycling related expenditures (i.e. Local Conservation Corps grants, curbside programs, quality incentive payments, processing payment assistance and litter reduction grants). By November, additional losses in program funding pushed these reductions to 100 percent.

In order to address this, the Administration is proposing short term solutions to bring the program into solvency and fully fund recycling related expenditures as well as long term programmatic reforms intended to provide long term stability to the program:

- Begin the repayment through existing authority of the outstanding Beverage Container Recycling Fund (BCRF) loans to the General Fund, including \$54.8 million in current year and \$98.2 million ongoing until total loan of \$452 million is repaid);
- Begin repayment of outstanding \$68 million BCRF loan to the Air Pollution Control Account that was made to support of AB 32 implementation. \$21 million of the loan is to be repaid on or before June 30, 2011 and \$21 million in 2012;
- Accelerate by one month the submittal of CRV to the fund by distributors for a one-time revenue increase of \$95 million;
- Eliminate all continuously appropriated funding and create an annual \$20 million competitive grant program for recycling activities;
- Make the following long term structural reforms to the program: (1) make processing payments and handling fees "core function payments" with all other expenditures optional; (2) Increase thresholds where "convenience zones" can be located (results in about 500 fewer sites) but give authority to the Department to place sites in under served areas; (3) effective January 1, 2014, shift processing payment (subsidy) costs from manufacturers and the BCRF balance to distributors, and, by extension, to consumers;
- Beginning in 2014, create a new non-refundable fee per container that would be tied to the actual costs of recycling the container. This fee would be higher for containers like plastic that are expensive to recycle and lower for aluminum that does not have significant costs to recycle.

Staff Comments

When the Subcommittee hears this issue, it is important to distinguish which proposals are needed to address the urgent issue of program solvency from those proposals that address more long term sustainability of the program. Primarily, the proposals to pay back General Fund and Special Fund Loans and advance one extra payment for the processing fee are most urgent for consideration to keep the program whole.

3560 – STATE LANDS COMMISSION

ISSUE 1: TRANQUILLON RIDGE

Governor's Budget Proposal

The Governor's budget assumes \$140 million in new General Fund revenue in 2010-11 from the approval of the Tranquillon Ridge offshore oil drilling lease by the State Lands Commission. This revenue comes from a portion of a \$100 million advance of royalties paid by the lease petitioner, Plains Explorations Petroleum (PXP), as well as actual lease revenue coming in at the end of the year. The Administration estimates that Tranquillon Ridge will generate \$1.8 billion in revenue for the state over the life of the lease.

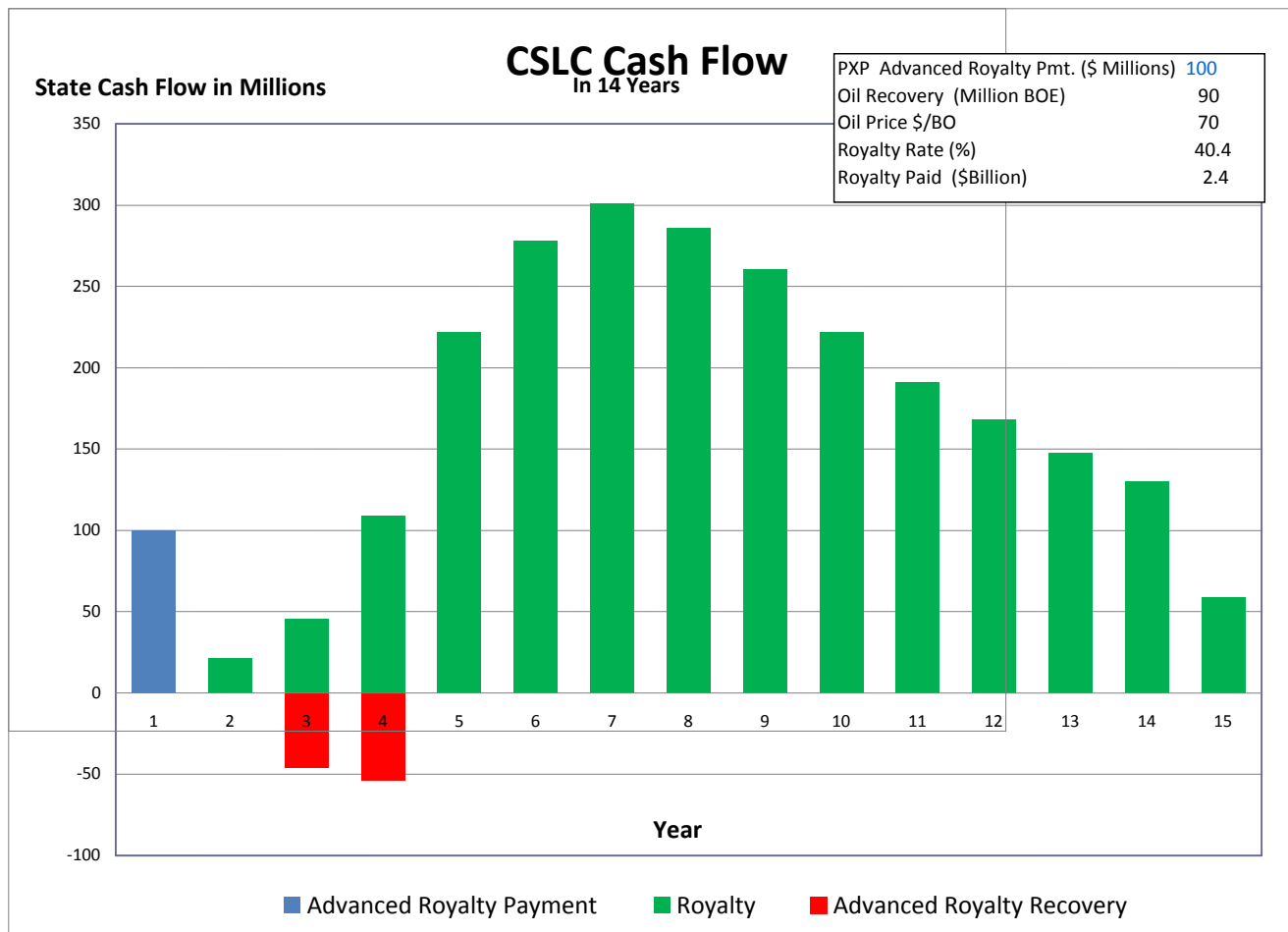
In the budget, the Governor also uses this new revenue to backfill \$140 million in General Fund from the Department of Parks and Recreation, with budget bill language that requires General Fund to be used to support parks if sufficient revenues are not generated.

Comments

Under the proposal, PXP would use slant drilling technology to drill diagonally from Platform Irene in Federal waters into state lands in order to access the Tranquillon Ridge oil field off the Coast of Santa Barbara County. In exchange for approval of the lease, PXP has agreed to provide the following environmental benefits: 1) Limit lease for 14 years; 2) Phase out 3 platforms at Pt. Arguello by 2017; 3) Offset greenhouse gas emissions (GHG) from the project by providing \$1.5 million to Santa Barbara County for GHG reduction projects; and 4) Donate 200 acres on the Gaviota Coast and 3700 acres in the Lompoc valley for conservation.

When the Legislature heard this issue last year, there were underlying concerns that the agreement to decommission existing wells and oil infrastructure was unenforceable. Because the platforms that are to be decommissioned reside in federal water, the federal government has authority to require that the platforms continue in operation regardless of actions taken by the state. PXP and the Administration have noted in last year's discussions that they are willing to discuss statutory guarantees of the agreement however staff continues to have concerns with enforceability of such statute.

Aside from enforceability issues, staff has concerns with the Governor's revenue expectations. Unless the Legislature exempted this project from state approval, the lease would need to be approved by the State Lands Commission, Coastal Commission, and the US Minerals Management Services. These multiple steps of regulatory approval along with actual time it takes to drill multiple wells required generate revenue make it unlikely that revenue forecasts will be met. This is demonstrated in the chart on the following page that was prepared by the State Lands Commission and gives a revised cash flow estimate for the proposal.



3940 – STATE WATER RESOURCES CONTROL BOARD

ISSUE 1: CLEAN WATER STATE REVOLVING FUND TRAILER BILL LANGUAGE

The Administration is proposing to authorize the State Water Resources Control Board (State Water Board) to issue grants, forgive loan principal and provide other types of assistance from the Clean Water State Revolving Fund (CWSRF) to the extent authorized by federal law, in order to conform with provisions of recently enacted federal law. This proposal will allow the State Board to continue to be eligible for federal CWSRF appropriations to help California communities build wastewater treatment and recycling facilities, fund nonpoint source pollution projects, and develop and implement estuary protection and enhancement programs.

Background

The State Water Board's CWSRF program provides \$200 - \$300 million annually in below market financing to help California communities build wastewater treatment and recycling facilities, fund nonpoint source pollution projects, and develop and implement estuary protection and enhancement programs. Under current law, the State Water Board is authorized to make loans from the CWSRF. State law does not authorize the State Water Board to provide "additional subsidies" such as grants, principal forgiveness or other similar types of assistance from the CWSRF, except in the case of funds received under the federal American Reinvestment and Recovery Act of 2009 (ARRA). For ARRA funds, the Legislature passed Chapter 25, Statutes of 2009 (SBX3 27, Negrete McLeod) to specifically authorize the State Water Board to issue grants, forgive principal on loans, and provide other types of assistance because the federal ARRA legislation required that at least 50 percent of the ARRA CWSRF monies be allocated in this manner.

On October 30, 2009, the federal government passed HR 2996 which, among other things, appropriates \$2.1 billion in new funding for CWSRF programs throughout the nation – it is anticipated that California would receive approximately \$145 million in new federal CWSRF funding. Among its provisions, HR 2996 requires states to allocate at least 15 percent, \$22 million of the CWSRF funds appropriated in the bill in the form of "additional subsidies."

Because the current base program provides only loans and no subsidies, California currently does not qualify for these funds.

Comments

The authority requested by the Administration to make grants from the CWSRF is required by the federal government in order for the state to qualify for base federal funding for the program. While the language provides the same authority that was granted last year for ARRA funds, it is different in that this language would impact the base program while last year's only affected ARRA funds above and beyond the base. Staff has no concerns with this proposal